Duopharma Biotech (DBB MK)

Some Uncertainty But Offers Deep Value

	BUY (Maintained)
Share Price	RM1.28
Target Price	RM1.67
Upside	30.57%

Analyst(s)
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Highlights

- **Insulin contract outlook.** Duopharma Biotech's (Duopharma) three-year RM375m insulin supply contract (non-APPL), which expired in Apr 25, has been extended by six months until Oct 25, implying a tender award towards year-end. Notably, the interim extension carries a higher monthly contract value compared with the expired agreement. Duopharma remains confident of retaining its position despite Pharmaniaga's entry. Policy considerations suggest the Ministry of Health (MoH) will award contracts to at least two suppliers, with one required to have drug substance capability – a position exclusively secured by Duopharma through its partnership with Biocon, giving it a distinct competitive advantage. Should Duopharma secure only 50% of the government's annual insulin requirements, its revenue contribution would still be broadly in line with the RM80m recognised in 2024. As such, despite perceptions of heightened competition, downside risk remains contained and limited.
- **Steady hands at the helm.** Leonard Ariff, Duopharma Biotech's outgoing Managing Director since 2008, will retire after nearly two decades of transformative leadership. Under his helm, Duopharma grew into a leading pharmaceutical company, driven by innovation, sustainability, and a strategic vision. He will be succeeded by Wan-Amir Jeffery, currently CEO of Group Operations, effective 1 Oct 25. With almost 10 years at the company, Wan-Amir brings continuity and deep operational experience. Meanwhile, CFO Chek Wu Kong will retire at the end of Jan 26, with a successor currently being identified. While these leadership transitions introduce some uncertainty, they have been largely anticipated. Given Duopharma's strong positioning in a highly regulated industry and its secured government contracts, the transition poses limited risk.

Analysis

- **2H25 sales outlook.** 2H25 hoh sales should at least track 2Q25's yoy growth of 1.6% given that insulin sales moderated in 2Q25. In addition, consumer healthcare sales have already moderated while export and ethical sales are expected to see solid demand. Meanwhile, non-insulin government sales should yoy growth following enlarged government contracts won earlier this year. Following that, a full year's impact of enlarged government contracts in 2026 should well underpin our 8.8% sales growth assumption for 2026.

Key Financials

Year to 31 Dec (RM m)	2023	2024	2025F	2026F	2027F
Net turnover	704.7	813.7	939.1	1,021.6	1,114.0
EBITDA	121.4	145.6	193.1	204.0	215.1
Operating profit	78.4	100.1	145.6	154.6	166.3
Net profit (rep./act.)	52.6	62.6	95.6	105.1	116.2
Net profit (adj.)	60.2	62.6	95.6	105.1	116.2
EPS	6.3	6.5	9.9	10.9	12.1
PE	20.4	19.6	12.9	11.7	10.6
P/B	1.8	1.7	1.6	1.5	1.4
EV/EBITDA	12.4	10.2	7.3	6.8	6.3
Dividend yield	2.8	2.3	3.9	4.3	4.7
Net margin	7.5	7.7	10.2	10.3	10.4
Net debt/(cash) to equity	40.2	35.0	24.4	19.6	15.2
Interest cover	7.9	7.1	9.5	12.0	15.2
ROE	8.6	10.1	14.9	15.7	16.6
Consensus net profit	n.a	n.a	92.7	103.8	109.3
UOBKH/Consensus (x)	n.a	n.a	1.0	1.0	1.1

Source: China Construction Bank, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Consumer Discretionary
Bloomberg ticker	n.a
Shares issued (m)	961.9
Market cap (RMm)	1,308.2
Market cap (US$m)	309.9
3-mth avg daily t'over (US$m)	0.2

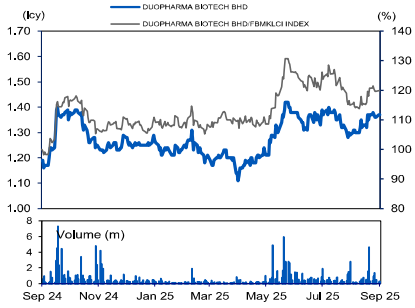
Price Performance (%)

52-week high/low				RM7.68/RM4.96
1mth	3mth	6mth	1yr	YTD
5.4	(1.4)	12.4	15.2	8.8

Major Shareholders %

LLok Fung Kenneth& Family)	-
FY24 NAV/Share (HK$)	-
FY24 Net Debt/Share (HK$)	-

Price Chart



Source: Bloomberg

Company Description

Duopharma is the leading pharmaceutical producer in Malaysia, with a fast growing export segment.

Valuation/Recommendation

- **Maintain BUY and target price of RM1.67.** Earnings visibility remains robust, driven by lower input costs and already-won enlarged government contracts. We like Duopharma for its defensive and domestically driven growth, which is insulated from external headwinds. Our PE peg of 15.3x is based on Duopharma's -0.5SD to its seven-year average mean PE, a switch from 14.7x based on Duopharma's pre-pandemic mean. Now that valuations have normalised since the pandemic, we have opted for valuations to reflect a full business cycle.

Earnings Revision/Risk

- **No changes to earnings.** Key risks include single customer concentration (>50% of Duopharma's sales are from the government) and the strengthening of the US dollar.

Share Price Catalyst

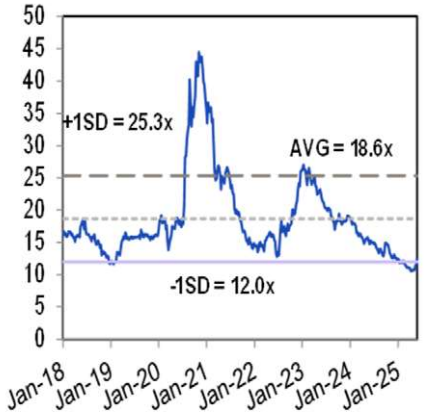
- **Possible beneficiary of the trade tariff war.** Duopharma is a possible marginal net beneficiary of the increased tariffs imposed by the US on its global trading partners. Duopharma does not export any pharmaceutical products to the US, but it does procure raw materials and equipment from the likes of India and China. In an instance of surplus of equipment and/or dumping of raw materials, capex could fall while margins rise.
- **Net beneficiary of ringgit strength.** Duopharma has left its net USD exposure unhedged for this year. Net of its export sales as a natural hedge, the company's 2025 earnings sensitivity to US$/RM is +0.3% for every 1.0% depreciation in the ringgit against the US dollar, based on our estimates. We have assumed a forex assumption of US$4.40/RM1.00 for 2025.

ASSUMPTIONS

	2025F	2026F	2027F
Revenue (RMm)	**939.1**	**1021.6**	**1114.0**
Local gov. (RMm)	**477.4**	**522.4**	**572.4**
% of revenue	51%	51%	51%
Local private (RMm)	**420.2**	**450.6**	**482.2**
% of revenue	45%	44%	43%
Export (RMm)	**41.5**	**48.6**	**59.4**
% of revenue	4%	7%	5%
	2025F	**2026F**	**2027F**
PAT (RMm)	**95.6**	**105.1**	**116.2**
Growth yoy (%)	52.6%	9.9%	10.6%
3-yr CAGR (%)	-3.4%	20.4%	22.9%
Gross profit margin (%)	37.1%	40.8%	40.8%
PAT margin (%)	10.2%	10.3%	10.4%

Source: Bloomberg, UOB Kay Hian

SEVEN-YEAR FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK$m)	2024	2025F	2026F	2027F
Net turnover	**814**	**939**	**1022**	**1114**
EBITDA	146	193	204	215
Deprec. & amort.	45	48	49	49
EBIT	100	146	155	166
Total other non-operating income	1	1	1	1
Associate contributions	0	0	0	0
Net interest income/(expense)	(21)	(20)	(17)	(14)
Pre-tax profit	**80**	**126**	**138**	**153**
Tax	(17)	(30)	(33)	(37)
Net profit	**63**	**96**	**105**	**116**
Net profit (adj.)	63	96	105	116

Balance Sheet

Year to 31 Dec (HK$m)	2024	2025F	2026F	2027F
Fixed assets	566	569	569	571
Other LT assets	84	84	84	84
Cash/ST investment	265	268	264	266
Other current assets	463	487	528	575
Total assets	**1377**	**1407**	**1444**	**1495**
ST debt	48	38	28	23
Other current liabilities	129	172	187	204
LT debt	465	415	395	375
Other LT liabilities	26	26	26	26
Shareholders' equity	709	757	809	868
Total liabilities & equity	**1377**	**1407**	**1444**	**1495**

Cash Flow

Year to 31 Dec (HK$m)	2024	2025F	2026F	2027F
Operating	**82**	**157**	**123**	**129**
Pre-tax profit	80	126	138	153
Tax	(11)	(30)	(33)	(37)
Deprec. & amort.	45	48	49	49
Associates	0	0	0	0
Working capital changes	(34)	18	(26)	(30)
Other operating cashflows	2	(4)	(5)	(6)
Investing	**(26)**	**(46)**	**(45)**	**(44)**
Capex (growth)	(22)	(50)	(50)	(50)
Proceeds from sale of assets	0	0	0	0
Others	(4)	4	5	6
Financing	**(62)**	**(108)**	**(83)**	**(83)**
Dividend payments	(27)	(48)	(53)	(58)
Issue of shares	0	0	0	0
Proceeds from borrowings	93	0	0	0
Loan repayment	(127)	(50)	(20)	(20)
Others/interest paid	(1)	(10)	(10)	(5)
Net cash inflow (outflow)	**(7)**	**3**	**(4)**	**2**
Beginning cash & cash equivalent	**270**	**265**	**268**	**264**
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	**265**	**268**	**264**	**266**

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Growth	**0.0**	**0.0**	**0.0**	**0.0**
Profitability	**0.0**	**0.0**	**0.0**	**0.0**
Leverage	**0.0**	**0.0**	**0.0**	**0.0**
Debt to total capital	72.3	59.8	52.2	45.8
EBITDA margin	17.9	20.6	20.0	19.3
Turnover	41.2	62.9	77.2	93.2
Debt to equity	72.3	59.8	52.2	45.8
Pre-tax margin	9.8	13.4	13.5	13.7
EBITDA	43.3	90.2	100.9	111.8
Net debt/(cash) to equity	35.0	24.4	19.6	15.2
Net margin	7.7	10.2	10.3	10.4
Pre-tax profit	13.0	77.6	95.3	115.9
Interest cover	7.1	9.5	12.0	15.2
ROA	5.4	8.2	8.9	9.6
Net profit	13.3	72.9	90.1	110.2
Net profit (adj.)	4.0	52.6	9.9	10.6
ROE	10.1	14.9	15.7	16.6
EPS	13.3	72.9	90.1	110.2

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